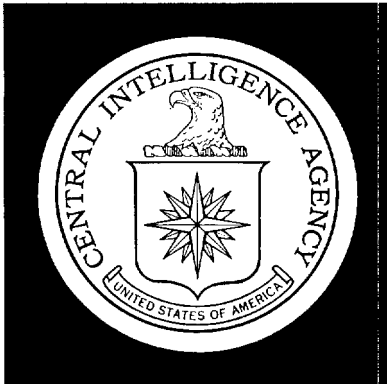


Secret

25X1



DIRECTORATE OF
INTELLIGENCE

Central Intelligence Bulletin

State Dept. review completed

Secret

Nº 42

23 September 1971

Page Denied

No. 0228/71
23 September 1971

Central Intelligence Bulletin

CONTENTS

COMMUNIST CHINA: Peking downplays significance of changes in National Day celebrations. (Page 1)

JAPAN: Revaluation reported to be imminent.
(Page 2)

UK: London to reduce role as banker for sterling area. (Page 3)

DENMARK: Social Democratic minority government in prospect. (Page 4)

BRAZIL: Chances for success of economic and social plan. (Page 5)

UN-JERUSALEM: Jordan amends resolution (Page 6)

GUYANA: Moves toward relations with Communist China (Page 6)

JAPAN - SOUTH VIETNAM: Major loan to Saigon
(Page 7)

SECRET

SECRET

COMMUNIST CHINA: Peking is attempting to downplay the significance of its decision to curtail National Day celebrations on 1 October.

The Chinese Ministry of Foreign Affairs announced yesterday that cancellation of the usual parade in Peking and other major ceremonial activities throughout the nation is merely a "reform" designed to change the traditional way of celebrating the holiday. The foreign ministry said that the curtailment is designed to underscore the necessity for the nation to concentrate on achieving "concrete deeds in production and construction," a formulation previously used to explain the remarkably low-key celebration on the occasion of the 50th anniversary of the Chinese Communist Party last July. This rationale, however, appears singularly thin given the abruptness with which the unprecedented decision apparently was taken and other anomalous developments, which all convey the impression that the decision was prompted by some major problem besetting China's unsettled leadership coalition.

Thus far, Peking has not reacted to foreign press speculation that Mao Tse-tung or his heir apparent are ill or dead but Chinese spokesmen in Hong Kong and in several embassies abroad are claiming that Mao is in excellent health. There are also no indications of any public reaction in Peking to the decision to scale down the festivities.

25X1

SECRET

SECRET

JAPAN: Rumors are circulating in Japan that Tokyo will revalue the yen this weekend--a three-day holiday in Japan. One Japanese trading company reportedly is already signing foreign trade contracts at 12 percent above the old yen parity rate.

A degree of uncertainty exists, however, as the Japanese establishment appears split on the issue of unilateral revaluation. Many businessmen and bankers see revaluation as preferable to the current draconian exchange controls which are creating financial uncertainty and hampering the conclusion of international trade contracts. Government financial officials, on the other hand, generally have favored a wait-and-see attitude. They believe that unilateral revaluation would weaken the Japanese bargaining position in any negotiations to secure removal of the US surcharge and to realign the exchange rates of the major world currencies.

Unilateral revaluation at this time would suggest Tokyo believes the present impasse between the US and the other Group of Ten nations will not soon end. A 12-percent yen revaluation in relation to the dollar would probably be generally consistent with the appreciation of European currencies that has already occurred. Moreover, it would permit Japan to portray the move as an unselfish effort to break the current deadlock prior to the annual International Monetary Fund meetings to be held in Washington next week.

Japanese businessmen and bankers expect revaluation will be in excess of nine percent. They would view anything less as only an interim measure insufficient to permit relaxation of controls.

[REDACTED]

25X1

SECRET

SECRET

UK: The announcement that London's role as banker for the sterling area will be lessened meets its pledge to the EC that the role of sterling as a reserve currency would be reduced.

The sterling area agreements concluded at Basel in 1968 between the United Kingdom and 64 sterling-area countries provided that these nations would maintain a certain proportion of their international reserves in sterling. In return, the British pledged to maintain the dollar value of eligible official sterling reserves of member countries.

The new agreements--substantially completed with 33 of the 35 countries that had restricted their commitments to three years--reportedly provide for a ten-percent reduction in the proportion of sterling the participating countries agree to hold in exchange for the dollar-value guarantee. Special arrangements are being worked out with Kuwait, and only Libya refused to renew the pact. All of the agreements will expire in September 1973.

Sterling balances have risen by about \$2.5 billion since the end of 1968 because of the sterling area's strong balance of payments and confidence in the pound as a reserve currency. At present, about six to seven percent of the world's total reserves of \$100 billion are in sterling.

The UK has available reserves amounting to nearly \$4 billion in addition to a \$2 billion standby credit arranged through the Bank for International Settlements, which are to be used in connection with the sterling guarantees. These probably are adequate to offset any reduced sterling holdings.

25X1

23 Sep 71

Central Intelligence Bulletin

3

SECRET

SECRET

DENMARK: The indecisive outcome of the parliamentary election on 21 September apparently clears the way for a Social Democratic (SDP) minority government under former prime minister Krag.

He had indicated a willingness to head such a government, supported in parliament by the left-wing Socialist People's Party (SF), if the outgoing coalition lost its majority and the SDP regained the seven seats it had lost in the 1968 election. In Tuesday's balloting, the coalition fell two seats short of a majority, while the SDP gained eight seats.

Prime Minister Baunsgaard, whose Radical Liberal Party was the only one of the three coalition parties to emerge unscathed, has refused to resign pending a recount. His hope is that a recount will enable a conservative splinter party to surmount the two-percent hurdle needed for parliamentary representation. Baunsgaard does not desire to reconstitute his coalition as a minority government. If Krag forms a minority government, he will have to draft his parliamentary program with an eye to accommodating his tacit SF allies. He probably will try to avoid taking positions on contentious issues such as Danish entry into the European Communities, which in any event is to be decided by popular referendum next year.

Krag's program could differ from the outgoing coalition's only in defense and in certain areas of foreign policy where there is agreement with the SF. The SDP has supported a retrenchment of the military establishment and is inclined to extend diplomatic recognition to North Vietnam.

25X1

25X1

23 Sep 71

Central Intelligence Bulletin

4

SECRET

SECRET

BRAZIL: President Medici's ambitious economic and social development plan for 1972-74 has a good chance to achieve its production targets provided that growth can be regained in the export sector.

Exports are scheduled to grow at an annual rate of ten percent, somewhat faster than imports. Exports have increased sharply in recent years and this has helped Brazil maintain a strong balance-of-payments position. Nevertheless, this area of the plan is the most vulnerable. Exports have faltered so far this year while imports have soared and Brazil probably will experience its first trade deficit in many years.

The projected increase in gross domestic production at an annual rate of between eight and ten percent is in line with the economy's performance during 1968-70. It will be more difficult to achieve the plan's social goals of increased education and a better distribution of income.

The projected reduction to ten percent in the annual rate of inflation will also be difficult to achieve. The general price level has continued to rise at about 20 percent annually since 1967 and has shown no signs of easing.

25X1

23 Sep 71

Central Intelligence Bulletin

5

SECRET

SECRET

NOTES

UN-JERUSALEM: The Jordanians now report that Syrian UN delegate Tomeh has promised to support an amended version of the draft resolution on Jerusalem already worked out between Amman and Washington. The new text the Jordanians have in mind does not include a reference to UN sanctions against Israel nor does it "condemn" Israeli actions in Jerusalem or call upon them to "rescind" measures taken--two contentious points the Syrians previously insisted on. The Jordanian UN mission wants to present the revised version as soon as the Council reconvenes, and hopes for an early vote. They maintain that insistence on the original text would provoke extended debate and lead the Syrians to offer a substantial number of presumably unacceptable amendments.

25X1

* * * *

GUYANA: The Burnham government is moving toward establishing both economic and diplomatic relations with Peking. A Guyanese trade mission has been named to attend the Canton Trade Fair in October as a follow-up to the recent visit to Georgetown of a five-man Chinese trade delegation. Although this delegation did not conclude any agreements, it did set the stage for additional discussion on trade and technical assistance. While prospects for a significant increase in bilateral trade are not considered strong, Burnham probably sees an opportunity to underscore his third world orientation and fulfill his stated objective to establish full diplomatic relations with the Chinese. Burnham recently stated publicly that traditional trade patterns have not necessarily served Guyana's best interests, and therefore an alteration in these patterns is necessary.

25X1

(continued)

23 Sep 71

Central Intelligence Bulletin

6

SECRET

SECRET

JAPAN - SOUTH VIETNAM: The recent signing of a \$16-million Japanese loan for construction of a power plant represents a significant step forward in Tokyo's policy of increasing aid to South Vietnam. This is the first major Japanese loan made to Saigon and its terms are much more generous than those of the two previous loans. For the past several years Japan's aid to South Vietnam has been limited to humanitarian grant assistance, including hospitals and medical supplies. Last year Tokyo decided that future economic development assistance to South Vietnam would be provided on more favorable terms than had been furnished in the early 1960s. Resumption of this type of aid resulted in part from Tokyo's assessment that security in South Vietnam has improved during the past year. Saigon currently is negotiating with Tokyo for additional "soft" loans for a telephone system in the capital city and for waterworks projects in Da Nang, Saigon, and the Mekong delta.

25X1

23 Sep 71

Central Intelligence Bulletin

7

SECRET

Secret

Secret